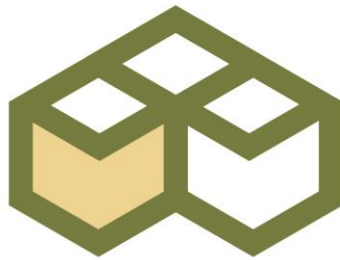


BEGINNING FARMER CUSTOM FARMING TAX CREDIT PROGRAM PROGRAM SUMMARY



**IOWA AGRICULTURAL
DEVELOPMENT DIVISION**

IOWA FINANCE AUTHORITY
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IADD@iowa.gov | IowaFinanceAuthority.gov/IADD

Program Summary

1. This program is:
 - a. Commonly referred to as the Beginning Farmer Custom Farming Tax Credit (BFCF)
 - b. Administered by the Iowa Agricultural Development Division (IADD) of the Iowa Finance Authority and began with the 2013 tax year.
 - c. Designed to encourage owners of capital agricultural assets to hire Iowa's qualifying beginning farmers to conduct and complete custom work on their farm/s for the production of crops or livestock.
2. The program provides the agricultural asset owner a credit against Iowa income taxes owed.
3. The beginning farmer:
 - a. Must provide all of the equipment and labor to produce crops and livestock
 - b. Cannot do custom work for a parent, spouse, child, stepchild, partners of the same partnership that owns or has an equitable interest in the same land or livestock as the beginning farmer.
4. All custom farming work is to be completed and paid to the beginning farmer before application materials for a tax credit are to be submitted to the IADD.

Basic Qualification Criteria

Qualifications of Asset Owner

1. May be an individual person, partnership, LLC, corporation, estate, or trust that may acquire or otherwise obtain or lease agricultural land in the State of Iowa pursuant to Chapter [9H](#) or [9I](#) – Code of Iowa. This is commonly known as the “Corporate Farming Law.”
2. If the agricultural asset owner is a partnership, LLC, corporation, estate, or trust the tax credit will be issued to the partnership, LLC, corporation, estate or trust; and their tax accountant will distribute the tax credit in the pro-rated share of those who own the entity.
3. A copy of the Articles of Incorporation, Partnership Agreement, Trust Agreement, etc. along with all owners complete contact information, and percentage of ownership must be provided with the application.
4. The taxpaying asset owner cannot be:
 - a. At fault for terminating a prior lease.
 - b. Be a party to a pending administrative or judicial action, including a contested case proceeding under Chapter 17A, Code of Iowa, relating to an alleged violation involving an animal feeding operation regulated by the Iowa Department of Natural Resources, regardless of whether the pending action is brought by the Department of the Attorney General.
 - c. Classified as a habitual violator for a violation of state law involving an animal feeding operation as regulated by the Iowa Department of Natural Resources.

Qualifications of Beginning Farmer

1. The beginning farmer shall be a resident of the state of Iowa. If the beginning farmer is a partnership, all partners shall be residents of the state of Iowa. If a beginning farmer is a family farm corporation, all shareholders shall be residents of the state of Iowa. If the beginning farmer is a family farm limited liability company, all members shall be residents of the state of Iowa.
2. A qualified beginning farmer must be of low or moderate net worth. Code of Iowa 175.2.12 defines this as not more than \$678,731.
3. For a partnership, an aggregate net worth of all partners, including each partner's net capital in the partnership, and each partner's co-applicant and minor children shall not be more than \$ \$1,382,344. However, the aggregate net worth of each partner and that partner's co-applicant and minor children may not exceed \$678,731.
4. For a family farm corporation and a family farm limited liability company, an aggregate net worth of all shareholders, including the value of each shareholder's share in the family farm corporation or family farm limited liability company and each shareholder's co-applicant and minor children are not to exceed \$ \$1,357,462. However, the aggregate net worth of each shareholder and that shareholder's co-applicant and minor children may not exceed \$678,731
5. The beginning farmer must have sufficient education, training and/or experience in the type of farming for which the tax credit will be issued. The beginning farmer or a third party shall self-certify that the beginning

farmer has sufficient education, training and/or experience through a background letter which shall accompany the application. Such certification is subject to review and confirmation of the IADD.

6. The beginning farmer has or will have access to adequate working capital, farm equipment, machinery or livestock. This will need to be self-certified by the beginning farmer or third party. This certification is subject to review and confirmation by the IADD.
7. The beginning farmer shall provide all the equipment and livestock needed to complete the custom farming work. If the beginning farmer is a partnership, family farm corporation, or family farm limited liability company, each partner, shareholder or member shall also materially and substantially participate in custom farming work. In addition, the beginning farmer shall assume the financial risk to complete the custom farming work.

Acceptable Projects, Activities, Contracts

Eligible / Ineligible Agricultural Assets

1. **Eligible projects** are listed on the website at iowafinanceauthority.gov/iadd and include:
 - a. Crop production: tillage, planting, spraying, fertilizer application, harvesting, drying, hauling grain, harvesting forages, tilling, etc.
 - b. Livestock production: grinding and mixing feed, spreading/injecting manure, power washing, building fence, shearing sheep, hauling livestock, bulldozing/clearing land, building ponds, mowing pasture or CRP acres, chopping pasture brush, backhoeing,
2. **Ineligible activities** are listed on the website at iowafinanceauthority.gov/iadd and include: strictly labor projects where the beginning farmer does not provide his/her equipment, farm labor for custom feeding livestock in facilities not owned by the beginning farmer, machine rental, soil testing, scouting crops, removing snow, managing stored grain, storing grain, mowing lawns, clipping livestock for show competitions or

Acceptable / Unacceptable Custom Farming Contracts

1. The custom farming contract term cannot exceed a 12-month period.
2. The asset owner and beginning farmer may re-apply for the tax credit program through the application and approval process each year.
3. The asset owner must provide a cash (check) payment to the beginning farmer before December 15 with no trades or bartering of equipment or other considerations, and provide a copy of the payment with the application materials.
4. Custom farming contracts are not permitted between parent, spouse, child, stepchild, partners of the same partnership that owns or has an equitable interest in the same land or livestock as the beginning farmer.
5. An eligible beginning farmer will continue to be considered an eligible beginning farmer for the term of the custom farming contract year even if the eligible beginning farmer's net worth increases due to outside factors and exceeds the maximum net worth eligibility factor for the year when the contract was submitted.
6. The custom farming contract cannot be transferred or assumed by another person or entity.
7. The asset owner and beginning farmer are required to notify the IADD in the case of death, change in ownership, name change, address and email changes etc.

Multiple Tax Credits

1. If an asset owner hires the same beginning farmer to complete several custom farming projects during the same year, they can submit separate custom farming contract applications for each project completed and pay a \$200 fee with each application or combine all the contracts and projects into one application and pay a \$200 fee.
2. A tax credit certificate will be issued each year for the total of all custom hire and rental lease tax credits the asset owner receives.
3. The tax credit is a non-refundable credit, therefore any credit in excess of the taxpayer's liability for the tax year may be credited to the tax liability for the following five years or until depleted, whichever is earlier.
4. The total amount of Iowa tax credits an asset owner can receive each year, from the combination of all tax credit projects, cannot exceed \$50,000.

Renting From A Related Person

1. A beginning farmer may rent from a related person, but not from a brother, sister, or parent. Those transactions could be subject to additional scrutiny, including confirmation the rental rate is at current market rates.
2. The background letter submitted with related party transactions should be very specific as to the involvement of the related party and sources that can independently confirm the legitimacy of the transaction should be identified.

Tax Credit Application Procedures

1. A beginning farmer and agricultural asset owner must prepare and submit an application to the IADD; Application forms are available from the IADD or on the IADD's website address at IowaFinanceAuthority.gov/IADD.
2. The applications should be completed by the beginning farmer and the agricultural asset owner and submitted directly to the IADD by the first of the month, and **no later than December 1.**
3. The completed application should be accompanied by:
 - a. The beginning farmer's current financial statement that is:
 - i. Prepared and signed by an ag lender as a witness to preparing the financial statement
 - ii. Less than 30 days old when received by the IADD.
 - b. Background letter confirming the beginning farmer has sufficient education, training and/or experience
 - c. Copy of the custom farming contract that has been signed by the agricultural asset owner and the beginning farmer, along with the date the contract was signed
 - d. Copy of a current "USDA Farm Service Agency Abbreviated 156 Farm Record form that reflects:
 - i. Agricultural asset owner as the "owner" or "operator" of the farm
 - ii. Number of acres and location of farm matches those mentioned in the application and lease.
4. All applications are to be submitted with all required information and fee; if all items are not received, applicants will be informed of the missing information needed and allowed 30 days to provide the information to the IADA, after which the file will be denied.
 - a. Completed applications received by the 1st of the month will be reviewed and considered by the IADD's board of directors at that month's board meeting. Incomplete applications could be considered.
 - b. Applications received after the 1st of the month will be reviewed at the next month's board meeting. If the 1st falls on a Saturday or Sunday, then applications will be due on the preceding Friday.
 - c. All applications **Must be received no later than December 1** to be considered by the IADD and be eligible to receive a tax credit for that year.
 - d. If the application is incomplete, the Beginning Farmer and the Asset Owner will be contacted to provide the needed information.

Program Fees

1. Since the IADD does not receive any state or federal funding or other monies to support the program, a \$200 administrative fee is required with each application
2. The fee may be paid by either the beginning farmer, agricultural asset owner or combination of both.
3. Should the application be denied through the IADD Board action, or due to insufficient information not provided after IADD's request and the 30-day grace period, no monies will be refunded.
4. If the asset owner or beginning farmer voluntarily withdrawn their application with-in 30 days, the \$150 of the application fee will be retained by the IADD \$50 will be refunded.
5. If an application is approved and later withdrawn by the beginning farmer or asset owner, no monies will be refunded.

Financial Statement Requirements

1. A copy of the beginning farmer's current financial statement, taken within 30 days prior to submission of the application, witnessed by a bank officer and signed by all applicants, must be submitted with the application.
2. If the beginning farmer and/or co-applicant are involved in a business, partnership, corporation, etc., either related or unrelated to his/her farming operation, a financial statement from this entity must also be submitted with the application.

3. If the beginning farmer is a partnership, family farm corporation, or family farm limited liability company, each partner, shareholder or member shall submit a personal financial statement in addition to a statement of the operating entity.
4. Total assets shall:
 - a. Include but not be limited to the following: cash; crops or feed on hand; livestock held for sale; breeding stock; marketable bonds and securities; securities (not readily marketable); accounts receivable; notes receivable; cash invested in growing crops; net cash value of life insurance; machinery equipment; cars and trucks; farm and other real estate including life estate and personal residence; value of beneficial interest in a trust; government payments or grants; and any other assets.
 - b. Be valued at fair market value by the beginning farmer's lender. The value shall be what a willing buyer would pay a willing seller in the locality.
 - c. Not include items used for personal, family or household purposes by the applicant, but in no event shall any property be excluded, to the extent a deduction for depreciation is allowable for federal income tax purposes. A deduction of 10 percent may be made from fair market value of farm and other real estate.
(The above adjustments will be made by the IADD upon receipt of the application.)
5. Total Liabilities shall:
 - a. Include but not be limited to the following: accounts payable; notes or other indebtedness owed to any source; taxes; rent; amount owed on real estate contracts or real estate mortgages; judgments; accrued interest payable; and any other liabilities.
 - b. Be determined on the basis of generally accepted accounting principles.

Background Letter

1. The background letter will assist the IADD staff/board of directors to evaluate the project application.
2. The letter should explain the beginning farmer's background with respect to his or her education and experience in the type of farming operation for which a tax credit is sought.
3. The letter should outline the beginning farmer's access to machinery if the project is for land or his or her access to land if the project is for agricultural improvements or depreciable agricultural property.
4. The letter should also state where the beginning farmer will obtain operating capital, along with contact information for the lender.
5. The letter should also give a brief background of the farming operation subject to the lease.

Calculating Tax Credit Amount

1. The application shall include copies of all payments made by the asset owner to the beginning farmer.
2. The tax credit will equal 7% on the total amount of payments received by the beginning farmer.
3. The total amount of Iowa tax credits an asset owner can receive each year, from the combination of all tax credit projects, cannot exceed \$50,000.

Issuance of Tax Credit Certificates

1. After the approval of a tax credit application, the IADD will issue an approval letter which will specify the terms of the approval (if any).
2. Assuming all requirements have been met, tax credit certificate/s will be issued by January 31 of the following year.

Redemption of the Tax Credit

1. The taxpayer should complete their Iowa State Tax Return as normal and should provide their tax preparer with the tax credit certificate issued by the IADD.
2. The tax preparer should complete State of Iowa Tax Form IA148 – Tax Credits Schedule and attach it to the taxpayer's tax return.
3. If the agricultural asset owner is a partnership, LLC, corporation, estate, or trust only one tax credit certificate will be provided to the entity.
4. Assistance on how to redeem your tax credit can be obtained from the Iowa Dept. of Revenue Taxpayer Services at 515-281-3114 or www.iowa.gov/tax

Requirements After Tax Credit Approval

1. Should either party become aware of any violation of the custom farming contract, violation of the Code of Iowa or the Administrative Rules of the program, they shall immediately notify the IADD.
2. If a taxpayer does not immediately notify the IADD of a violation, the taxpayer shall be deemed at fault for the termination and the tax credit project will be withdrawn and it could result in disallowing of previous tax credits received as well as future tax credits.
3. The agricultural asset owner and the beginning farmer tenant:
 - a. Are mutually responsible for keeping the IADD informed of any changes of contact information for either party.
 - b. They can forward updated information with the any revised email addresses or mailing addresses or use the Change of Contact Information that can be obtained on the IADD's web page at IowaFinanceAuthority.gov/IADD

Change of Contact Information

Beginning Farmer Custom Farming Tax Credit Program

Return this form if there are any changes to your contact information to:

E-Mail: IADD@iowa.gov
OR
Mail to: Iowa Finance Authority
Iowa Agricultural Development Division
2015 Grand Avenue
Des Moines, Iowa 50312
OR
Fax to: 515.725.4901

**Submit a separate form for each project number
Do not combine information from multiple projects**

Tax Credit Project Number: _____
Asset Owner Name: _____
Asset Owner Address: _____
Asset Owner Telephone: _____
Asset Owner Email Address: _____

Tax Credit Project Number: _____
Beginning Farmer Name: _____
Beginning Farmer Address: _____
Beginning Farmer Telephone: _____
Beginning Farmer Email Address: _____